DAWN

# OPINION

# Afghan border closure

FOLLOWING the clashes between Pakistan and Afghanistan last October, the border separating the two countries remains closed for trade, and people's movement continues to be highly restricted. Prime Minister Shehbaz Sharif highlighted this issue while talking to a delegation from KP on Tuesday, saying that Pakistan's hand was "forced" in the matter due to the Afghan Taliban's refusal to effectively crack down on cross-border terrorism. Mr Sharif said the trade blockade "should not have been there", but added that it was up to Afghanistan's rulers to decide whether or not they wanted to live in peace with Pakistan. The border was also closed last February, after security forces on both sides clashed; but the current closure is the longest in recent memory.

Pakistan needs to balance its security concerns with the economic realities of the border region. While there can be no compromise on security, border trade is a key component of KP's economy. As per figures cited by local think tanks, cross-border terrorist attacks did come down since the border was sealed last year. This is significant as 2025 was the bloodiest year in a decade for the country. Therefore, it appears that the state took the right step by closing the border in order to save lives in the country. Yet a way forward must be found that — while maintaining strict border vigilance — allows for the gradual resumption of trade activities.

Business activities have been affected in both countries, with large traders, daily wagers and transporters, who depend on cross-border commerce to make a living, bearing the brunt. In Pakistan, for example, representatives of KP's business community have said the closure has caused them losses to the tune of billions of rupees, with perishable items rotting and containers held up at Karachi's ports. Moreover, there is the concern that if the stalemate with Kabul continues, and the border remains closed, Pakistan's access to Central Asian markets will be curtailed. The state needs to address the situation holistically. Nevertheless, the onus to improve ties lies on the Afghan Taliban. If they can give iron-clad security guarantees to Pakistan and ensure that terrorist groups such as the TTP and others will be reined in, the path to normalisation will become clear. If not, people on both sides of the border will continue to suffer due to the Taliban's intransigence, and the lack of action on terrorist incursions. All of Afghanistan's neighbours are affected because of Kabul's inaction, as the recent killing of terrorists at the Tajik border and the suicide bombing targeting a Chinese eatery in the Afghan capital show. In the meantime, Pakistan can look into the option of resuming partial trade with stricter security protocols.

# Water test

THE world has entered what the UN has termed an era of "water bankruptcy". The phrase is not to be sidelined as over-the-top rhetoric. In many regions, societies have been drawing down water far faster than nature can replenish. Resultantly, rivers, aquifers, glaciers and wetlands have been exhausted in ways that are no longer reversible. The UN University's latest report warns that water systems across continents are already in a post-crisis state, where one can no longer count on recovery after a drought or flood. This global condition carries particular urgency for Pakistan — a lower-riparian, semi-arid state whose economy, food security and social stability depend overwhelmingly on the Indus basin. Climate change has intensified floods and droughts alike, accelerated glacier melt in the upper reaches of the basin, and worsened groundwater depletion across the plains. Rapid population growth, inefficient irrigation and poor urban water management have pushed demand well beyond sustainable limits. In the language of the UN report, Pakistan has been spending not just its annual "water income" but also its long-term "savings". Against this backdrop, India's decision to place the Indus Waters Treaty in abeyance is deeply troubling. For more than six decades, the treaty provided predictability, data-sharing and dispute-resolution mechanisms in one of the world's most heavily used transboundary river systems. Pakistan's warning at the UN that unilateral actions and information withholding amount to the weaponisation of water should be taken seriously. In an era of water bankruptcy, uncertainty only deepens the crisis, making it harder to plan for agriculture, electricity generation and flood control.

Yet it would be a mistake to see Pakistan's water predicament through the lens of external threats alone. Even if the treaty remains intact, the country faces an internal reckoning. Bankruptcy management, as the UN report makes clear, is not about returning to a lost past but about adapting honestly to new hydrological realities. That means rethinking crop choices, pricing and subsidies, investing in groundwater regulation and recharge, protecting ecosystems, and modernising irrigation. The coming years will be decisive. With global water risks rising and regional cooperation under strain, Pakistan must prepare for scarcity as a fact of life. Preventing a full-blown water collapse will demand diplomacy abroad, discipline at home and the political courage to act while we can.

# New beginnings

BOTH Houses finally have an opposition leader endorsed by the majority on the opposition benches. The missing pillars of parliament have thus been restored, and both the government and opposition parties deserve commendation for showing maturity on this matter. After years of acrimony in the political atmosphere, the development certainly feels like a breath of fresh air. It promises what could be a fresh start to the process of political reconciliation. Both Allama Raja Nasir Abbas, appointed opposition leader in the Senate, and Mehmood Khan Achakzai, the new opposition leader in the National Assembly, have made positive overtures in their inaugural speeches, extending an olive branch to the government with the appeal that politics be run by politicians. It also seems that their speeches have been generally well-received, albeit with some reservations. The chasm between the government and opposition may seem very large to bridge quickly or easily, but, after a long time, there seems to be a glimmer of hope.

Now that they have been notified, the big challenge before the two leaders is to marshal the opposition behind them. While the PTI, the largest and most influential party in the opposition, had endorsed their candidature and former prime minister Imran Khan publicly placed his trust in both Mr Achakzai and Mr Abbas, it remains to be seen whether the party will remain disciplined in how it reacts to the decisions they make. With access to Mr Khan cut off, there is a strong chance that the PTI leadership on the ground may act in ways that the leadership in jail does not agree with, or vice versa. In such an atmosphere, if the various factions within the PTI start bickering over the right path forward, as they are wont to do, life would be made very difficult for Mr Abbas and Mr Achakzai. The PTI has made a sensible decision in aligning itself with the two gentlemen; it must now allow them to exercise their judgement with confidence.

BY ISHRAT HUSAIN

# SOEs: an eclectic approach

Decisions regarding state-owned enterprises should be guided by pragmatic considerations.

A CONTROVERSY is raging on both mainstream and social media over PIA's recent privatisation. Unless this debate is addressed rationally, future privatisation transactions may also be at risk. Past experience offers a cautionary lesson: the Supreme Court's decision to annul the privatisation of Pakistan Steel Mills did not revive the enterprise; instead, it led to its closure in 2015 and significantly slowed the overall privatisation process.

The popular binary often advanced — either retain enterprises under government ownership or privatise them — is flawed. Decisions regarding state-owned enterprises should be guided by pragmatic considerations rather than ideological preferences. Pakistan has 85 commercial SOEs for diverse purposes across power, oil and gas; transport and communications; manufacturing, mining and engineering; finance; industrial estate development and management; and wholesale and retail trade. Of these, 51 are currently profitable. The argument that profitable SOEs should never be divested is as untenable as the view that all 34 lossmaking entities must be privatised. Neither ownership per se nor current financial performance should solely determine policy.

The basic principle for deciding whether an economic activity should be undertaken by the government — through its departments or through an SOE — rests on two questions: a) does the activity fall within the government's public policy framework? b) Can it be adequately performed by the private sector?

**Relevance to public policy framework:** The PPF reflects the government's development priorities, as articulated in documents such as the Principles of Policy (Article 3 of the Constitution) and sectoral policies relating to agriculture, industry, trade, etc. In assessing alignment with the PPF, it is necessary to consider whether an SOE is connected to one or more core state functions — i) ensuring national food security; ii) developing and managing large-scale infrastructure; iii) national defence and security-related activities; iv) entities established through government-to-government or intergovernmental arrangements; and v) provision of goods and services of critical national economic interest. If an SOE falls into any of these categories, there is a prima facie case for retaining it under government control. The decision then is whether it should be retained in its existing form or restructured to improve performance.

**Market failure considerations:** The second question concerns market failure: can the private sector adequately deliver the relevant activity? Each SOE must be evaluated in terms of its operations, functions and market structure, with attention to the following: a) is the SOE a natural monopoly; if so, does an effective regulatory framework exist to ensure socially optimal and cost-effective service delivery under private ownership? b) Does the SOE perform a function that generates significant positive externalities and is, therefore, insufficiently profitable for the private sector to undertake? c) Are there alternative delivery mechanisms to achieve the same objectives?

Where market failure prevents the private sector from maximising social welfare, the government has a strong case for retaining control. Even then, competition can be introduced by dismantling monopolies where feasible and establishing strong, independent regulatory agencies.

**Financial viability:** While several SOEs report accounting profits, financial viability requires more rigorous assessment. The key question is whether the organisation can generate sufficient revenues to cover operating costs, meet debt obligations, and, where relevant, finance investment for growth while maintaining acceptable service standards. The financial viability test should be based on the following: a) *Negative shareholders' equity:* Any entity with negative equity for the past three years is financially stressed, as its balance sheet is not bankable and it remains dependent on government guarantees or direct budgetary support. b) *Continuous losses:* Entities incurring losses over the last three years are similarly stressed, as losses either necessitate government support or gradually erode equity. c) *Return on assets*: While return on equity is a standard metric, ROA is more appropriate when equity is negative. ROA measures how effectively management uses assets to generate earnings. SOEs with an ROA below five per cent for three consecutive years should be considered financially stressed.

In such cases, financial restructuring is the first step. If restructuring fails under government ownership due to extraneous constraints, alternative options — such as outsourcing, leasing, concession agreements, or transfer of managerial control — should be considered. SOEs that don't meet public policy criteria, don't address market failure concerns, or cannot be made viable even after restructuring are prime candidates for privatisation, liquidation, or winding up.

**Lessons from successful privatisation:** Pakistan's main privatisation success stories are the banking and telecom sectors. In banking, the share of assets held by nationalised commercial banks declined from around 80pc to about 20pc following privatisation. Prior to 2003, the government injected Rs46 billion to recapitalise loss-making banks; non-performing loans stood at 25pc, and financial soundness indicators were weak. Since privatisation, four major banks (HBL, UBL, MCB, and ABL) have contributed Rs245bn in corporate taxes in 2024 with cumulative contributions exceeding Rs1.6 trillion since 2004. NPLs have fallen below 7pc, provisioning exceeds 100pc, and overall financial soundness has improved.

The main weakness in recent years is the growing role of banks as public sector financiers, reflected in a declining advance-to-deposit ratio. Importantly, public sector banks such as the NBP and the Bank of Punjab have also improved under a competitive market structure and rank among the top 15 Asia-Pacific banks. The ideological argument that these institutions must also be privatised ignores the empirical evidence that ownership itself is not the decisive factor.

**PIA's case:** Applying this framework (spelt out in the *SOE Triage Report 2021*) to PIA leads to a clear conclusion: there were no compelling public policy or market failure reasons for retaining it under government control. The aviation industry is competitive, and private operators have proved their capacity to perform effectively. Despite repeated restructuring efforts, PIA accumulated losses of Rs850bn. The privatisation objective was not short-term maximisation of sale proceeds but elimination of recurring losses and revival of the airline as an efficient enterprise. Over the longer term, improved performance under private management is expected to generate a steady stream of tax revenues rather than drain the exchequer. In sum, Pakistan needs an eclectic, evidence-based approach to SOEs, which transcends ideological divides and focuses squarely on public policy relevance, market structure, and financial viability. ■

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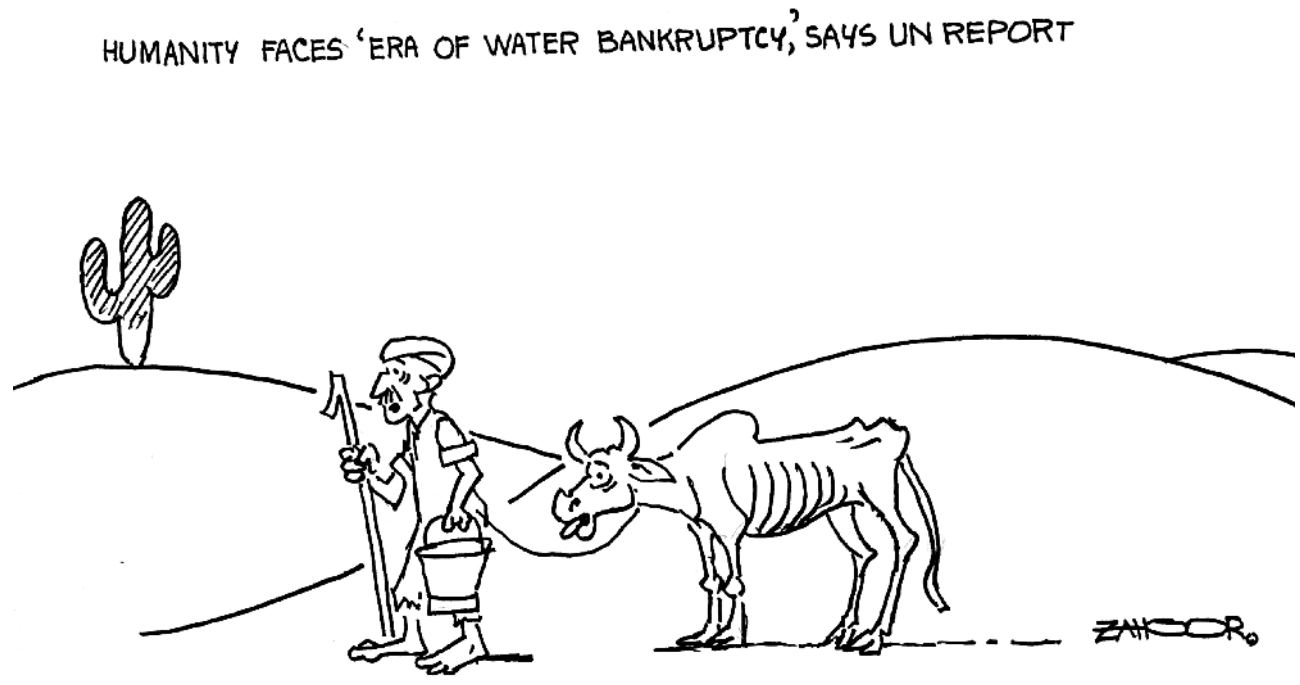

BY KHURRAM HUSAIN

# Fighting fires

THE Gul Plaza tragedy in Karachi last weekend provided the perfect metaphor and visual example of a lot of what weighs down Pakistan's economy. This was not the first such fire. Journalist Mahim Maher compiled a list of 60 mall fires in Karachi between 2016 and 2022. "Gul Plaza was a disaster waiting to happen," she said while re-sharing her interactive map of all these fires on her social media feed.

The massive flames engulfing the building were reminiscent of the inflationary fire that engulfed Pakistan between March 2021 and May 2023. The repeated nature of these fires was a parallel to how the economy of Pakistan burns in the fires of a balance-of-payments crisis every few years.

New reports talked about how the firefighters were late to the scene. Firefighters attributed this to the traffic mess through which their tenders had to travel to reach the scene. This reminded me of the intense power struggle that has been a constant feature of our politics for decades now, and how the political logjam serves as an obstruction in the path of decision-makers reaching the conclusion they need to reach: the country needs to go to the IMF and swallow the bitter medicine of austerity one more time to douse the economic flames engulfing the country.

The firefighters fought heroically. They fought all night. The smouldering remains of the building over the next few days bore testament to the strength they had to muster, the dangers they faced and all that it must have taken to douse the flames. It's the same when respective governments have fought off a balance-of-payments crisis. The State Bank and the bureaucrats at the finance ministry make some of the toughest choices of their careers during these periods. The high-wire act performed to keep banks afloat in 2008 or to keep the energy supply chain running in 1998 is known only to those who actually performed these deeds. The rest of us may be oblivious to all that it took to keep the country running those days. But we are all in the debt of those who made sure this was the case.

Yet the repeated fires in Karachi mock the efforts of the firefighters, just like the repeated slide into bankruptcy by Pakistan's economy mocks the efforts of the heroes who had to pull it out of crises in the last episode of bankruptcy. Ms Maher counted 60 fires in six years. That is 10 every year. Yet after Gul Plaza the authorities are once again sending out notices to the Association of Builders and Developers (ABAD) in Karachi to please ensure their buildings have fire exits. I counted almost 25 episodes of bankruptcy for Pakistan since 1988. Yet after each programme ends, every government announces this is the last such programme.

> The flames consuming Gul Plaza were reminiscent of the inflationary fire that engulfed the country between March 2021 and May 2023.

The same mistakes are made over and over again. The same flames break out over and over again. The same drama plays out every such fire. And it always has the same ending: everyone gets back to business as usual, no lessons are ever learned, and certainly no lessons ever applied. Pakistan is one of a handful of countries that has spent more time inside an IMF programme than outside in the past quarter century or more. Yet, not once has there been an across-the-board exercise to determine why we keep falling into the same hole every few years, why we keep having to put out the same fire every few years.

The reason is simple. Nobody in Karachi, not least in all the administrations the city has had over the decades, is really interested in preventing the next fire. ABAD is not likely to do much to retrofit all buildings in the city that it has built with fire escape plans. According to DIG South, quoted in this paper, the building had 16 exits on the ground floor and 14 of them were closed, while the basement was packed with shoppers. It doesn't take a lot of brains to know that blocked exits are a fire hazard, but who thinks of preventive maintenance? Who thinks about fire escapes and emergency evacuation plans in a city that literally lives from day to day?

Likewise, it doesn't take a lot of brains to understand that if you burn your foreign currency reserves in a consumptive binge you will go bankrupt. It doesn't take a lot of brains to realise that if you replenish these reserves with borrowed dollars, you will still go bankrupt but this time with more debt on top of it. It doesn't take a genius to realise that if you keep doing what everybody before you did, you will land up in the same place as they all did: in bankruptcy, fighting the fires of inflation.

Yet they do it over and over again. The Gul Plaza fire was a massive tragedy. Even as the dead are still being counted and identified, it can be said the bigger tragedy will be when the fire is forgotten, when the furore dies down, when normality returns, and people get back to work once again. That is what happened 60 times between 2016 and 2022. It is now gearing up to happen for the 61st time.

And exactly the same thing happens with the economy. Every time they put out the fires of inflation, and every time they replenish the foreign currency reserves following a brush with bankruptcy, they spend a year extolling their heroism, reminding everyone how they just put out a fire started by the previous guys. Then they get to work doing the exact same thing the previous guys did, all the while reassuring us that this time the outcome will be different.

And because money gets made in these latter periods, nobody complains, except maybe naysaying doomsayers like yours truly. Until the next fire. ■

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